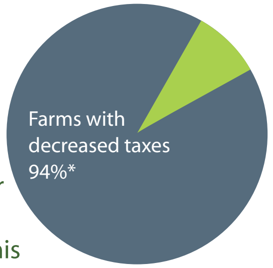
Benefits to Agriculture

How will agriculture benefit?

- Property tax will be capped at 2 percent for farmland in 2010. This is the maximum rate, not a new rate.
- Limits on local government spending will provide more accountability.
- The farmland assessment mechanism is unchanged from 2005. It will continue to be based on net farm income generated on the property.

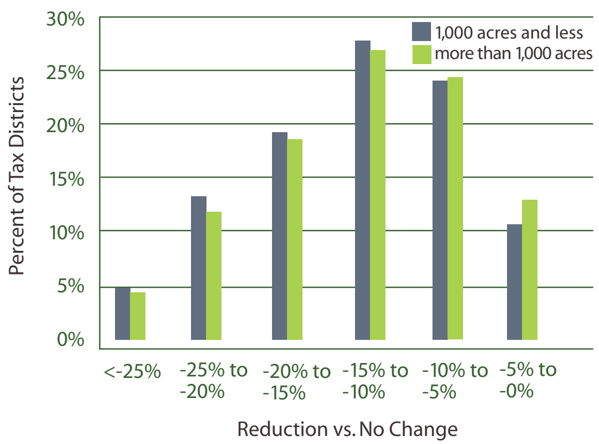
With Indiana's New Property Tax Plan



After Indiana's new Property Tax Plan is implemented, on average, 94 percent of farmers will see property tax bills lower than they would have been otherwise without reform. This will occur no matter the size of farm.

**The 6 percent less likely to benefit tend to be those in an urban tax district.*

Projected Total Tax Reductions by Farm Size



Property tax calculation includes homes, personal property and farmland with farmland assessed value increasing to $1,140.

The exact amount of the property tax savings will vary depending on the tax district where the farm resides. Some farmers will pay over 25% less than they would have, though most will pay about 10% less. This is true for both small and large farms.

Indiana Farm sizes, numbers, and assets from USDA 2002 Census of Agriculture

Governor Daniels' initiated historic legislation that resulted in much needed property tax relief, permanent protection against future property tax increases and innovative government reform. This is a good deal for the citizens of Indiana and a good deal for agriculture.

What are the key elements driving tax savings?

- Immediate and significant relief
- Permanent protection
- Limits on local government spending
- Improved accuracy and fairness in assessment of property value.

For more information on Indiana's Property Tax Plan, visit **www.in.gov/isda.**
For your county's estimated taxes, go to the Department of Local Government Finance site **www.in.gov/dlgf/rates/**

INDIANA STATE DEPARTMENT OF AGRICULTURE

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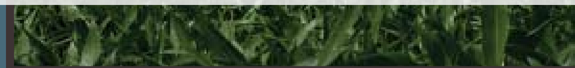
Indianapolis, IN 46204

{ Indiana's New Property Tax Plan: A Good Deal for Agriculture }



A Shift in Funding from Local Property Tax to State

Under Indiana's New Property Tax Plan, the state will assume about $3 billion in costs that were previously funded through local property taxes. Those costs include:

- The remaining 15 percent of school operating costs
- Child welfare levies
- Costs of juvenile incarceration in state facilities
- State fair and forestry levies
- Hospital care for the indigent
- Pre-school special education levies
- Costs of certain police and fire pensions

Because this is a complete shift, these expenses *cannot "creep" back to property tax payers.* This will make future property tax bills more predictable.

How will this shift be funded?

Fund Sources	Estimated Amount
1% Sales Tax Increase	$928 million
Wagering Proceeds	$108 million
Property Tax Replacement Credits (PTRC) Redeployment	$2.028 billion
Total	**$3.064 billion**

The new funding shifts do not impact farm operations because:

- Farm-related purchases will continue to be tax exempt
- The Property Tax Replacement Credits were already funded by the state budget assessment
- The farmland assessment mechanism is unchanged from 2005.

Limits on Local Government Spending

Indiana's New Property Tax Plan provides limits on local government spending and creates a clearer, more accountable local government structure *and* helps keep future tax rate increases in check.

- Referenda required for new school and local government capital projects.
  - For elementary and middle school projects over $10 million
  - For high school projects over $20 million
  - For local government projects over $12 million or 1 percent of gross assessed value
- Eliminates loopholes on levy appeals that previously enabled local governments to spend more
- County Council oversight of non-elected board budgets.

Long-Term Caps on Property Taxes

The new plan includes caps on property taxes starting in 2010. This is a tiered system as follows:

- Homestead, 1 percent (In 2009, the cap will be 1.5 percent)
- Farmland & Rental, 2 percent (In 2009, the cap will be 2.5 percent)
- Business/Other, 3 percent (In 2009, the cap will be 3.5 percent)

These caps provide:

- Certainty of ***maximum*** tax liability
- Immediate savings for many

Indiana's New Property Tax Plan also takes the first step toward placing property tax caps in the Indiana Constitution. Much more discussion will be required before a vote on a permanent constitutional reform takes place. Taxpayers will get a chance to approve the caps in the November 2010 general election only if lawmakers approve them again in 2009.

Farmland Assessment

In 2005, farmers were given a huge benefit when the state allowed the inclusion of farm income in the farmland assessment equation. This was in response to a court order in the mid 1990s requiring all property to move to a fair market assessment. But, with input from the farming community, Governor Daniels pushed to include farm income in the farmland assessed value formula. Farmland is the only area of business that operates under this type of assessment mechanism.

Under the Governor's New Tax Plan – ***Nothing has changed*** to the system widely accepted in 2005.

Example of the farmland assessment formula

As the table below demonstrates, while today's average farmland would appraise at nearly $3,900 per acre under a fair market assessment, the assessed value is *capped* at $1,200. On average, assessment is reduced by 70 percent.

Approach	Market-Value *In-Exchange Method*	Market-Value *In-Use Method* (Indiana's Formula)
Key principles	Valued assessed as market value if property sold today	**Valued based on income generated in use of property**
Current Avg. Value / Acre	$3,900	**$1,200**
Assessment Mechanism	Market assessment, like homes	**Based on Net Income**

Impact of higher farmland assessment

Some people have seen a change from their assessed value of farmland from $880 per acre to $1,140 per acre. This change is unrelated to Indiana's New Property Tax Plan and is built on the fair assessment mechanism that was widely supported in 2005.

Farmland owners got short-term relief on their 2006 and 2007 taxes when the state put a two-year cap at $880 per acre on the assessed value. That price was based on farm income from 1999 - 2002. In the last three years, higher farm income and higher land values have resulted in farmland assessments moving from $880 to $1,140.

What will drive higher assessments?

- The only factors driving higher assessments are higher *net* farm income and higher assessed farmland values.
  - Net farm income is determined after all expenses—including property taxes—are considered.
  - A $1 increase in farmland assessed value *does not* equal a $1 increase in farm property taxes.
  - Taxes paid are ultimately driven by a district's levies or the amount of money they need to collect.

Agriculture has more than its share of uncertainty. But one thing farmers can be sure of: Indiana's Property Tax Plan will bring much needed property tax relief and permanent protection against future property tax increases. Agriculture is getting a good deal.